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Broersma, L.; van Ours, J.C.

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JOB SEARCHERS, JOB MATCHES AND THE ELASTICITY OF MATCHING

by

Lourens BROERSMA*

and

Jan C. VAN OURS**

ABSTRACT

This paper stresses the importance of a specification of the matching function in which the measure of job matches corresponds to the measure of job searchers. In many empirical studies on the matching function this requirement has not been fulfilled because it is difficult to find information about employed job searchers and job searchers from outside the labour market. In this paper, we specify and estimate matching functions where the flow corresponds to the correct stock. We use several approximations for the stock of non-unemployed job searchers. We find that the estimation results are sensitive to the approximation we use. Our main conclusion is that it is important to account for the behaviour of non-unemployed job searchers since otherwise the estimated parameters of the matching function may be seriously biased.

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* Department of Economics, University of Groningen, P.O. Box 800, 9700 AV Groningen, The Netherlands; email: L.Broersma@eco.rug.nl

** Department of Economics, CentER for Economic Research, University of Tilburg, P.O. Box 90153, 5000 LE Tilburg, The Netherlands and CEPR; email: vanours@kub.nl

1. INTRODUCTION

The most practised model of aggregate labour market flows is the matching or hiring function. The matching function describes how the flow of job matches is related to the stock of job searchers and the stock of available jobs, much as a standard production function describes the technological relation between the flow of products and the stocks of production factors. There have been numerous efforts to specify and estimate matching functions for a number of countries. Cf. Pissarides (1986), Blanchard and Diamond (1989), Layard *et al.* (1991), Van Ours (1991,1995), Burda and Wyplosz (1994).

In much of the theoretical matching literature, job vacancies match with unemployed workers, yielding a flow of matches, *i.e.* a flow of unemployed persons finding jobs. See, *e.g.* Pissarides (1990). One of the issues in theoretical and empirical research is the position of employed job searchers. In a lot of studies employed job searchers are simply ignored. In theoretical studies this is motivated by the mathematical complications involved. An important exception is Pissarides (1994). In many empirical studies employed job search is ignored because of a lack of suitable data. Then, job matches are approximated by the flow of out of unemployment. Yet, the composition of the flows to employment changes over the business cycle (Schettkat (1996)). In recessions the flow from unemployment to employment increases relative to the flow from job to job. While most of the outflow from unemployment will involve the filling of a job, there may also be a number of unemployed that move out of the labour force. In order to counteract this flaw, in some studies only the flow of male unemployed is taken, under the assumption that the flow of unemployed moving out of the labour force mainly consists of women. Other studies use the total hires as an approximation for the number of matches. However, hires not only include unemployed finding a job, but also the flow of persons out of the labour force, like school-leavers, to a job and the flow of employed workers moving to another job. This means that no longer job vacancies and unemployed job searchers are matched, but instead vacancies and all job searchers. The same applies to the flow of filled vacancies, which sometimes is used to approximate the flow of matches. Vacancies are not necessarily filled only by unemployed job searchers; they are open for all job searchers alike. So also in this case, the pool of unemployed job searchers in the matching function should be replaced by the pool of all job searchers. Despite all these different measures, in practically all studies job matches are related to the stock of unemployed and the stock of vacancies in the matching function.

A different issue is whether a matching function has constant returns to scale. It is difficult to give an explanation for constant returns to scale. Pissarides (1990) argues that only constant returns to scale lead to a stationary unemployment rate. Other explanations focus on the inadequate discrete time intervals, which are used when estimating the continuous time function (Burdett et al. 1994). Burgess (1993) claims that the exclusion of employed job searchers may lead to an underestimation of the returns to scale of the matching function.

This paper shows that both in theory and in practise different measures of job matches and their corresponding stock of job searchers result in different matching elasticities. In the theoretical part of the paper we show that if non-unemployed job searchers are ignored the returns to scale of the matching function are downward biased. If only the flow from unemployment to employment is considered to represent the flow of matches we find that the returns to scale are upward biased. We illustrate this theoretical finding using results from previous empirical studies. In the empirical part of the paper we analyse data from The Netherlands. We show the estimation results for a number of alternative specifications of the matching function. Our main conclusion is that the estimated parameters of the matching function depend very much on the way the numbers of non-unemployed job searchers are accounted for.

The paper is organised as follows. Section 2 presents a theoretical framework that stresses the importance of conformity of the stocks in the matching process and the flow of job matches. Section 3 discusses the results of previous research along the lines of the theoretical framework. Estimates of this matching function, using pooled cross-section data on six sectors in The Netherlands economy from 1988.II-1994.IV, are presented in Section 4. Section 5 concludes.

2. JOB SEARCHERS AND JOB MATCHES

The process of matching workers and jobs is not an instantaneous process. Workers and firms are engaged in a time-consuming (stochastic) process of finding an appropriate match. The matching process is formalised by the matching function, which gives the flow of new hires from some pool of job searchers as a function of that same pool of job searchers and the pool of available job vacancies.

$$F = cM(S, V), \quad (1)$$

where F is the flow of job searchers being matched to a job, M is the matching function, S is the stock of job searchers, V is the stock of available job vacancies, and c is a scale parameter. For the sake of reasoning, we assume time to be continuous.

This matching function is analogous to an aggregate production function. It shows that labour market flows generate delays in the finding of both jobs and workers, even when the matching process is very efficient. The efficiency of the matching process is represented by c in (1). Changes in the value of c capture changes in the geographic and skill characteristics of workers and jobs or other differences between the two, as well as differences in search behaviour between job searchers.

In this section we show that different measures of matching, and hence different stocks of job searchers, imply quite different values for the elasticities of matching. We distinguish between persons on unemployment insurance, persons on welfare benefits, employed job searchers and job

searchers not in the labour force. Figure 1 presents the flows between the different labour market states that are relevant in our study.

* Figure 1 somewhere here *

In Figure 1, the unemployed with an unemployment insurance benefit, U , and the unemployed with a welfare benefit, U_s , together build registered unemployment, UR . In the sequel we refer to the unemployed with an unemployment insurance benefit as ‘the unemployed’. The job searchers not in the labour force, or non-participants, are labelled N . Only a certain proportion of this group searches for a job, mainly school-leavers and married women re-entering the labour market. Finally, E represents the employed persons.

Based on earlier arguments, a matching function based on F_{ue} , the flow of unemployed on unemployment insurance, should contain U as stock of job searchers, whereas a matching function based on F should have S as stock of job searchers. We assume that all successful job searchers get a job by filling a vacancy.

The matching function (1) is usually specified in a Cobb-Douglas form

$$F = c (U + X)^\alpha V^\beta \quad (2)$$

where X is the stock of non-unemployed job searchers, that is all job searchers except those with an unemployment insurance benefit. X consists of job searchers with a welfare benefit, employed job searchers and job searchers not in the labour force. Furthermore $\alpha \in (0,1)$ and $\beta \in (0,1)$ are the elasticities of matching with respect to the stock of job searchers and the stock of vacancies. They show the effect of job matches to a change in S or V . Constant returns to scale implies that $\alpha + \beta = 1$.

Since X and U are probably not independent the elasticity of the flow of matched job seekers with respect to the number of unemployed is

$$\alpha^* = \left(\frac{\partial F}{F} \right) / \left(\frac{\partial U}{U} \right) = \alpha \left(\frac{U}{U + X} \right) \left(1 + \left(\frac{\partial X}{\partial U} \right) \right).$$

If unemployment goes up the stock of non-unemployed job searchers will probably go up less than proportional. If unemployment goes up employed workers who are risk averse will stop or reduce their search activities. Furthermore, if unemployment goes up the job searchers who are as yet outside the labour market will also reduce or stop their search activities because of a discouraged worker effect.

We define the elasticity of the stock of non-unemployed job searchers as

$$\epsilon_u^x = \left(\frac{\partial X}{\partial U} \right) \left(\frac{U}{X} \right) \quad 4$$

Then we find

$$\alpha^* = \alpha \left(\frac{U + \varepsilon_u^x X}{U + X} \right)$$

Since the stock of non-unemployed job searchers increases less than proportional with unemployment, $\varepsilon_u^x < 1$ and

$$\alpha^* < \alpha$$

So, if the stock of non-unemployed job searchers is ignored we underestimate the true value of the matching elasticity with respect to the number of job seekers. Since the estimate of the matching elasticity with respect to vacancies is not affected we conclude that ignoring the stock of non-unemployed job searchers leads to an underestimation of the returns to scale of the matching function.

Now, we consider what happens if we use the flow from unemployment to a job as an indicator of the number of matches. We assume that this flow is proportional to the total flow to a job. The factors of proportionality are the stocks of unemployment and total job searchers. Furthermore, we allow for the possibility that there is a difference in the efficiency of search between unemployed and non-unemployed job searchers:

$$\left(\frac{F_{ue}}{F} \right) = \left(\frac{c_1}{c} \right) \left(\frac{U}{S} \right)$$

where c_1/c indicates the relative search efficiency of the unemployed job searchers. From this it follows that

$$F_{ue} = c_1 U (S)^{\alpha-1} V^\beta \quad (3)$$

This implies that the elasticity of the outflow from unemployment with respect to the number of unemployed is

$$\alpha^{**} = \left(\frac{\partial F_{ue}}{F_{ue}} \right) / \left(\frac{\partial U}{U} \right) = 1 + (\alpha - 1) \left(\frac{U}{U + X} \right) \left(1 + \left(\frac{\partial X}{\partial U} \right) \right)$$

$$\alpha^{**} = 1 + (\alpha - 1) \left(\frac{U + \varepsilon_u^x X}{U + X} \right)$$

which leads to

$$\alpha^{**} > \alpha.$$

Therefore

So, if we ignore both the stock of non-unemployed job searchers and the flow from non-unemployment to employment we overestimate the elasticity of the matching function with respect to the number of job searchers. All in all we find

$$\alpha^* < \alpha < \alpha^{**}.$$

This means that the true elasticity α of the matching function has a value that lies between the elasticity of a matching function that models the flow of filled vacancies and the stock of unemployment and the elasticity of a matching function that models the flow of unemployed leaving unemployment and the stock of unemployment.

3. PREVIOUS RESEARCH

Most of the empirical studies of the matching function are hampered by the fact that the flow of persons moving to a job does not always originate from the pool of job searchers in the matching function. In almost all studies, the pool of job searchers equals the stock of unemployed. In that case, ideally, the flow of matches should equal the flow of hires from unemployment. However, some studies approximate the flow of matches by the total hires. In this case the matches include much more than just the flow from unemployment into employment. Workers moving from one job to another fill many vacancies. In addition, a substantial part of the vacancies are filled by the flow of persons out of the labour force to a job, mostly school-leavers. So in this case, the stock of job searchers is much larger than the stock of unemployed. On the other hand, the job being filled does not necessarily have to be a vacancy. It can be an idle job or the unemployed can start an own business, *etc.* So also the stock of available jobs is probably larger than the stock of vacancies. This latter argument does not apply when the flow of filled vacancies is used as an approximation of the flow of matches. Here, the pool of available jobs is indeed the stock of vacancies. However, a vacancy does not necessarily have to be filled by an unemployed job searcher. Employed job searchers and job searchers out of the labour force may equally well fill a

vacancy. Hence, the pool of job searchers is, also in this case, much larger than just the stock of unemployed. Nevertheless, in all empirical studies, where matches are total hires or filled vacancies, unemployment is assumed to be sufficient to represent the job searchers in the matching function. Cf. Blanchard and Diamond (1989), Van Ours (1991), Gorter and Van Ours (1994).

Many other studies use the outflow out of unemployment to approximate the flow of matches. This means that the actual flow of job matches by unemployed is overestimated, because no account is being taken of the unemployed moving out of the labour force. Sometimes, one tries to prevent this flaw by applying only the male outflow out of unemployment, assuming that mostly female unemployed move out of the labour force. Cf. Pissarides (1986), Layard *et al.* (1991), Burda and Wyplosz (1994). Also in this case, the persons moving out of unemployment do not necessarily fill a vacancy.

The fact that the measure of job matches does not correspond to the pool of job searchers may bias the elasticity of the matching process with respect to the pool of job searchers and vacancies. Table 1 presents a comparison of studies of the matching function for a number of countries and shows the relation between certain measures of job matches and the values of the matching elasticity. It presents the dependent variable in (1) and shows the range of measures used to represent this flow of matches. It also reports the frequency of the data and the elasticities of matching with respect to the stock of job searchers, usually unemployed, and vacancies.

Table 1 shows a dichotomy for the values of the matching elasticity with respect to unemployment, α and the measure of job matches. When the dependent variable is the outflow of unemployed (UO) or the hires from unemployed (HU), the value of $\alpha > 0.5$. On the other hand, if the dependent variable is the total hires (H), the flow of filled vacancies (F) or the hires from employment (HE), we find $\alpha < 0.5$. The value of α for the flow from persons not in the labour force (HO) is ambiguous. In many studies the stock of unemployed serves to represent the relevant stock of job searchers.

* Table 1 somewhere here *

In theory the flow of matches is defined in continuous time. Therefore the frequency of the data used to estimate the matching function should be high. We use quarterly data from The Netherlands. Our data set has the advantage that the measures of job matches, the flow of unemployed to a job and the flow of filled vacancies, can be linked to the correct stocks of job searchers and available jobs. The data cover the period 1988-1994 in which no major changes in the definition of the relevant variables occurred. The last major change in definitions in unemployment, vacancies and unemployment outflow occurred in 1987. Since that year the official vacancy statistics are collected in a firm survey, which also takes account of unreported vacancies. In 1987 there also was a change in legislation with respect to the unemployment insurance act. For more details on our data set we refer to Appendix 1.

4. EMPIRICAL RESULTS

In order to get an operational specification for (2) and (3), we use a log-linear form. Furthermore, we use information from different economic sectors i . Ignoring indices for time we have

$$\log(F_i / V_i) = \xi_i + \alpha \log(U_i + X_i) + (\beta - 1) \log V_i$$

$$\log(F_{ue,i} / U_i) = \phi_i + (\alpha - 1) \log(U_i + X_i) + \beta \log V_i$$

where $\xi_i = \log(c_i)$ and $\phi_i = \log(c_{li})$, are sector-specific fixed effects. As indicated before, the two intercept terms reflect the concept that the efficiency of matching differs between unemployed and other job searchers. Apart from that we allow for differences in matching efficiency between economic sectors.

The reference period covers 1989.I-1994.IV. We include six economic sectors: agriculture, manufacturing, construction, commercial services 1 (*i.e.* trade, hotels, restaurants, banks, insurance, etc.), commercial services 2 (*i.e.* transport, storage and communication) and non-commercial services.

One of the problems in the estimation of matching functions is that there is no exact information on the numbers of non-unemployed job searchers. We investigate the sensitivity of the estimation results by analysing the effects of different assumptions with respect to the stock of non-unemployed job searchers.

In our first estimates we assume that $X=0$, which is equivalent to the assumption that the elasticity $\varepsilon_u^x=1$, or in other words: the stock of non-unemployed job searchers changes proportional to the changes in the stock of unemployed job searchers. When estimating both equations separately we find the following coefficients (t -values):

dependent variable:	matching elasticities	
	job searchers	vacancies
$\log(F_{ue}/U_{-1})$	0.55 (14.2)	0.01 (0.5)
$\log(F/V_{-1})$	-0.08 (1.0)	0.47 (10.6)

In the equation with the outflow from unemployment as dependent variable the match elasticity with respect to unemployment is 0.55, while the match elasticity with respect to vacancies does not differ significantly from zero. In the equation with the total flow of vacancies as the dependent variable the estimation results are very different. Here we find that the match elasticity with respect to the number of job searchers does not differ significantly from zero, while the

match elasticity with respect to vacancies is 0.47. So, as predicted in Section 2 the elasticity of the matches with respect to unemployment is higher if the matches concern the outflow from unemployment in stead of the total flow of filled vacancies.

If we impose the matching elasticities to be the same in both equations and estimate the model using iterative seemingly unrelated regression as estimation technique we find that the matching coefficients are about equal with a value of about 0.15. The estimation results are shown in Table 2.

* Table 2 somewhere here *

The Wald test on the null hypothesis of $\alpha+\beta=1$ equals $\chi^2(1)=191.6$, which cannot be accepted at any reasonable significance level. So, we find that the matching function is characterised by decreasing returns to scale.

In our second estimation we assume that the number of non-unemployed job searchers is equal to the sum of specific shares of the employed workers, the workers collecting welfare benefits and the non-participants.

$$X_{it} = 0.1 E_{it} + 0.5 B_{it} + 0.07 N_t$$

We assume that 10% of the employed work force searches for another job. This percentage is based on Boeri (1995), who studied employed job search in a number of OECD countries. Next, we assume that only 50% of the persons receiving a welfare benefit actually search for a job, based on scattered evidence of the Ministry of Social Affairs and the Netherlands Central Bureau of Statistics (CBS). Finally, the assumption that only 7% of the non-participants search for a job is based on various issues of the Labour Market Survey of the CBS. Non-participants are defined as the number of persons between 20 and 64 minus the employed and minus persons receiving an unemployment insurance benefit and those receiving a welfare benefit.

Note that we assume that the workers outside the labour market have no preference as to which sector they are searching. In the context of the matching function the actual number of non-unemployed job searchers is not very important. What is important is the way this number covaries with the number of unemployed workers. Specified in this way we find that the simple correlation between X and U is equal to -0.74. The average elasticity of the stock of non-unemployed job searchers with respect to the number of unemployed turns out to be 0.11 (see Appendix 3 for a description of the estimation procedure and results). So, the total number of job searchers increases less than proportional with the number of unemployed workers. Therefore, ignoring the non-unemployed job searchers will give too low an estimate of the supply side effect of the matching function.

* Table 3 somewhere here *

Table 3 that gives the estimation results of the matching model with this specification of X confirms this. The elasticity of the matches with respect to the number of vacancies is hardly affected, but the elasticity of the matches with respect to the number of job searchers increases to 0.74. The sum of the two elasticities equals 0.90. The Wald test on constant returns to scale, $\alpha+\beta=1$, equals $\chi^2(1)=3.322$. Therefore, when account is being taken of other job searchers than unemployed, the hypothesis of a matching function with constant returns to scale cannot be rejected.

Finally, we estimate a model in which the number of non-unemployed job searchers is specified as a function of the number of employed and the number of unemployed. In our third estimates we assume that X can be written in a Cobb-Douglas form,

$$X = U^\gamma E^\delta, \quad (4)$$

where $\gamma = \varepsilon_u^x$ and $\delta > 0$. This enables us to estimate the elasticity of the number of non-unemployed job searchers with respect to the number of unemployed within the context of a matching model. Table 4 presents the estimation results.

* Table 4 somewhere here *

From this table we draw several conclusions. First, the elasticity of the matches with respect to the number of vacancies again is hardly affected. The elasticity of the matches with respect to the number of job searchers increases to 1.12, but is not significantly larger than 1. However the sum of the two elasticities of the matching functions now equals 1.30. The Wald test on constant returns to scale equals $\chi^2(1)=37.67$. Therefore, we cannot reject the hypothesis that the matching function has increasing returns to scale.

Second, the results imply a negative impact of unemployment, U , on the stock of all other job searchers, X . The coefficient $\gamma=-0.54$ is significantly negative. This corroborates our earlier premise of the pro-cyclical character of X . The effect of employment on the stock X is positive and quite large, as $\delta=1.30$.

Third, the matching efficiencies are in agreement with intuition. The fixed effects of the model for both F and F_{ue} show that the efficiency of matching in agriculture is relatively high in both equations; the same applies to construction, whereas it is much more difficult to find a job in manufacturing and in the services sectors. For unemployed it is relatively more difficult to get a job in commercial services 1, while in commercial services 2 and non-commercial services it is relatively more easy. This implies that agriculture and construction are more efficient in matching jobs to job searchers than other sectors and that unemployed job searchers are relatively difficult to match to jobs in commercial services 1, like trade, banks, etc.

5. CONCLUDING REMARKS

This paper studies the properties of matching functions, in which the measure of job matches and the pool of job searchers are consistent with each other. Our study is in line with Burgess (1993,1994) who points out that employed job searchers build the largest flow into employment and affect the standard matching approach substantially.

Different measures of job matches and their corresponding stock of job searchers, result in different matching elasticities. In the theoretical part of the paper we show that if non-unemployed job searchers are ignored the returns to scale of the matching function are downward biased. If only the flow from unemployment to employment is considered we find that the returns to scale are upward biased. We show that this finding is confirmed in previous studies. The studies that use the flow from unemployment to a job as an indicator of the number of matches find a substantially higher matching elasticity with respect to job searchers than the studies that are based on the total inflow into a job.

The crucial parameter is the elasticity of the number of non-unemployed job searchers with respect to the number of unemployed job searchers (ϵ_u^x). We started our empirical analysis with the assumption that $\epsilon_u^x=1$, which is similar to ignoring non-unemployed job searchers since this number is proportional to the number of unemployed workers. Under this assumption we find that the matching function has decreasing returns to scale. In our second estimation we assumed that the number of non-unemployed job searchers is equal to the sum of certain fixed shares of the numbers of employed workers, non-participating workers and workers on welfare benefits. Then, on average $\epsilon_u^x=0.1$. Under this assumption we find that the matching function has constant returns to scale. Finally we estimated ϵ_u^x directly within the matching model framework finding a value of -0.5. Then, we find that the matching function has increasing returns to scale.

All in all, we conclude that it is very important to account for the effect of non-unemployed job searchers on the matching process. Whether or not a matching function has decreasing, constant or increasing returns to scale depends very much on the way the non-unemployed job searchers have been accounted for. This finding has important policy implications for aggregate unemployment and the labour market position of individual unemployed. If indeed the matching elasticity with respect to unemployment is close to 1 the total number of unemployed does not affect the individual exit probabilities.

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Table 1. An International Comparison of Matching Elasticities

Dependent variable	Authors	Country	Data frequency	Elasticity	
				V	U
Total flow into a job					
H	Blanchard and Diamond (1989)	USA	monthly	0.6	0.4
H	Schettkat (1993)	Germany	annual	0.2	0.0
H	Anderson and Burgess (1994)	USA	annual/panel	0.8	0.4
H	Mumford and Smith (1995)	Australia	monthly	0.3	0.3
F	Van Ours (1991)	Netherlands	annual	0.6	0.4
F	Van Ours (1994)	Netherlands	annual	0.6	0.4
F	Gorter and Van Ours (1994)	Netherlands	annual		0.7
0.3					
Unemployment outflow into a job					
HU	Blanchard and Diamond (1989)	USA	monthly	0.2	0.6
HU	Schettkat (1993)	Germany	annual	0.2	0.7
HU	Mumford and Smith (1995)	Australia	monthly	0.1	0.6
HU	Van Ours (1995)	Netherlands	annual	0.3	0.7
UO	Pissarides (1986)	UK	quarterly	0.3	0.7
UO	Layard <i>et al.</i> (1991)	UK	quarterly	0.3	0.7
UO	Burgess (1993)	UK	quarterly	0.4	0.6
UO	Burda and Wyplosz (1994)	France	monthly		0.3
0.7					
UO	Burda and Wyplosz (1994)	Germany	monthly	0.3	0.7
UO	Burda and Wyplosz (1994)	Spain	monthly	0.2	0.8
UO	Burda and Wyplosz (1994)	UK	monthly	0.3	0.7
UO	Broersma (1997)	Netherlands	annual	0.3	0.7
UO	Antolin (1994)	Spain	annual	0.2	0.8
UO	Eriksson and Pehkonen (1995)	Finland	quarterly	0.2	0.8
Hires from outside the labour force					
HO	Blanchard and Diamond (1989)	USA	monthly	0.2	0.6
HO	Mumford and Smith (1995)	Australia	monthly	0.4	-0.3
Hires from non-employment					
HN	Anderson and Burgess (1994)	USA	annual/panel	0.7	0.3
HN	Albæk and Hansen (1995)	Denmark	quarterly	0.3	0.7
Hires from employment					
HE	Anderson and Burgess (1994)	USA	annual/panel	1.0	0.7
HE	Van Ours (1995)	Netherlands	annual	0.7	0.3

Explanation: UO is unemployment outflow (in some cases only males), H is total hires, HU is hires from unemployment, HO hires from out of the labour force, F is filled vacancies, HN is hires from non-employment, HE is hires from employment.

Table 2. Estimation results of the matching model assuming X=0, 1989.I-1994.IV

Model specification ^{*)}					
$\log\left(\frac{F_t}{V_{t-1}}\right) = \xi_0 + \xi_1 d_{man} + \xi_2 d_{con} + \xi_3 d_{cs1} + \xi_4 d_{cs2} + \xi_5 d_{ncs} +$ $+ \alpha \log U_{t-1} + (\beta - 1) \log V_{t-1}$ $\log\left(\frac{F_{ue,t}}{U_{t-1}}\right) = \phi_0 + \phi_1 d_{man} + \phi_2 d_{con} + \phi_3 d_{cs1} + \phi_4 d_{cs2} + \phi_5 d_{ncs} +$ $+ (\alpha - 1) \log U_{t-1} + \beta \log V_{t-1}$					
Estimation method: iterative seemingly unrelated regression estimation					
<i>Fixed effects</i>					
parameter	value	t value	parameter	value	t value
ξ_0	1.418	(16.02)	ϕ_0	7.795	(91.26)
ξ_1	0.592	(4.446)	ϕ_1	1.068	(8.244)
ξ_2	0.371	(4.088)	ϕ_2	0.403	(4.994)
ξ_3	1.572	(11.12)	ϕ_3	0.566	(4.115)
ξ_4	-0.012	(-0.149)	ϕ_4	-0.438	(-6.402)
ξ_5	0.748	(6.616)	ϕ_5	0.290	(2.716)
<i>Joint effects</i>					
	parameter	value	t value		
	α	0.148	(4.436)		
	β	0.166	(8.370)		
<hr/>					
R^2	0.460			0.778	
σ	0.273			0.211	
N×T	144			144	

^{*)} The variables labelled d_i are sectoral dummy variables for the six sectors in our analysis. The indices refer to the following sectors: *man* to manufacturing, *con* to construction, *cs1* to commercial services 1, *cs2* to commercial services 2 and *ncs* to non-commercial services. See also Appendix 2.

Table 3. Estimation results of the matching model, second specification, 1989.I-1994.IV

Model specification ^{*)}					
$\log\left(\frac{F_t}{V_{t-1}}\right) = \xi_0 + \xi_1 d_{man} + \xi_2 d_{con} + \xi_3 d_{cs1} + \xi_4 d_{cs2} + \xi_5 d_{ncs} +$ $+ \alpha \log(U_{t-1} + X_{t-1}) + (\beta - 1) \log V_{t-1}$					
$\log\left(\frac{F_{ue,t}}{U_{t-1}}\right) = \phi_0 + \phi_1 d_{man} + \phi_2 d_{con} + \phi_3 d_{cs1} + \phi_4 d_{cs2} + \phi_5 d_{ncs} +$ $+ (\alpha - 1) \log(U_{t-1} + X_{t-1}) + \beta \log V_{t-1}$					
where $X = 0.1E + 0.5B + 0.07N$					
Estimation method: iterative seemingly unrelated regression estimation					
<i>Fixed effects</i>					
parameter	value	t value	parameter	value	t value
ξ_0	-2.728	(-11.49)	ϕ_0	6.750	(80.69)
ξ_1	0.788	(9.759)	ϕ_1	-0.429	(-3.452)
ξ_2	0.502	(6.924)	ϕ_2	-0.183	(-3.094)
ξ_3	1.744	(19.73)	ϕ_3	-0.877	(-6.629)
ξ_4	0.073	(1.050)	ϕ_4	-0.849	(-22.26)
ξ_5	0.876	(11.25)	ϕ_5	-0.799	(-8.436)
<i>Joint effects</i>					
	parameter	value	t value		
	α	0.744	(20.12)		
	β	0.160	(8.634)		
<hr/>					
R ²	0.560			0.963	
σ	0.246			0.086	
N×T	144			144	

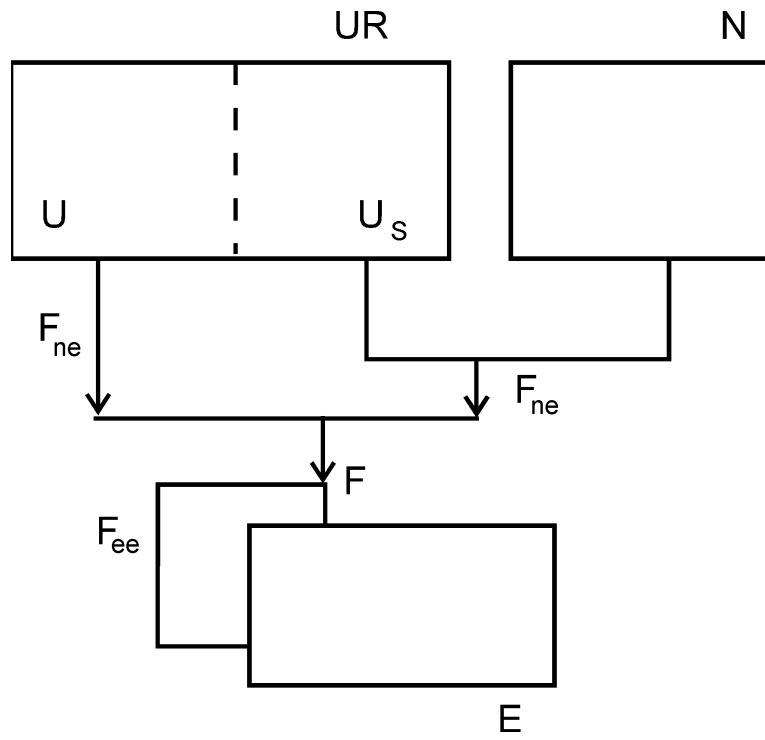
^{*)} See note at Table 2.

Table 4. Estimation results of matching model third specification, 1989.I-1994.IV

Model specification					
$\log\left(\frac{F_t}{V_{t-1}}\right) = \xi_0 + \xi_1 d_{man} + \xi_2 d_{con} + \xi_3 d_{cs1} + \xi_4 d_{cs2} + \xi_5 d_{ncs} +$ $+ \alpha \log(U_{t-1} + U_{t-1}^\gamma E_{t-1}^\delta) + (\beta - 1) \log V_{t-1}$					
$\log\left(\frac{F_{ue,t}}{U_{t-1}}\right) = \phi_0 + \phi_1 d_{man} + \phi_2 d_{con} + \phi_3 d_{cs1} + \phi_4 d_{cs2} + \phi_5 d_{ncs} +$ $+ (\alpha - 1) \log(U_{t-1} + U_{t-1}^\gamma E_{t-1}^\delta) + \beta \log V_{t-1}$					
Estimation method: iterative seemingly unrelated regression estimation					
<i>Fixed effects</i>					
parameter	value	t value	parameter	value	t value
ξ_0	-4.089	(-7.757)	ϕ_0	-1.613	(-4.779)
ξ_1	-1.446	(-4.550)	ϕ_1	-1.505	(-10.96)
ξ_2	-0.949	(-5.233)	ϕ_2	-0.703	(-8.298)
ξ_3	-1.205	(-3.108)	ϕ_3	-2.069	(-11.97)
ξ_4	-1.658	(-8.788)	ϕ_4	-1.320	(-12.41)
ξ_5	-2.613	(-6.593)	ϕ_5	-1.893	(-9.204)
<i>Joint effects</i>					
	parameter	value	t value		
	α	1.120	(16.63)		
	β	0.183	(9.353)		
	γ	-0.537	(-7.841)		
	δ	1.296	(16.59)		
R^2	0.757			0.957	
σ	0.185			0.094	
N×T	144			144	

*) See note at Table 2.

Figure 1. Flows into employment.



APPENDIX 1. DATA: SOURCES AND DEFINITIONS

$F_{ue,i}$	Flow of persons with unemployment insurance benefit to a job, for sector i . source: Sociale verzekeringsraad, <i>Het beroep op de Werkloosheidswet, omvang en ontwikkeling</i> .
F_i	Flow of filled vacancies for sector i source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .
U_i	Number of persons receiving unemployment insurance benefit, for sector i . source: Sociale verzekeringsraad, <i>Het beroep op de Werkloosheidswet, omvang en ontwikkeling</i> .
S_i	Total number of job searchers, consisting of unemployed and employed job 0 searchers and job searchers not in the labour force: $UR + ?_1 E_i + ?_2 N$. Size of this stock is unknown
X_i	Total number of job searchers, excluding those with an unemployment insurance benefit. Size of this stock is unknown.
UR_i	Registered unemployment, composed of both persons with an unemployment insurance benefit and persons with welfare benefit (unemployment support). source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .
E_i	Number of jobs in sector i . source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .
B	Number of persons receiving a welfare benefit (interpolated) source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .
V_i	Number of vacancies for sector i . source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .
N	Number of non-participants, defined as population of age 20-64 minus employed and unemployment benefit recipients, $N = P - E_i - U_i - B$ source: Central Bureau of Statistics, <i>Sociaal-economische maandstatistiek</i> .

All relevant data, used for estimation, are from 1988.IV-1994.IV

APPENDIX 2. SECTORAL CLASSIFICATION

This appendix describes the classification of the sectors we distinguish in terms of the SBI-index in The Netherlands (similar to the SIC-classification). SBI 1, mining, and SBI 4, public utility, have been omitted. The first is very small in The Netherlands and the latter is also small and more or less constant over the period 1989-1994.

We have chosen this classification, because it corresponds to the classification used for the outflow of unemployed to a job, $F_{ue,i}$.

Sector	SBI	Description
<hr/>		
Agriculture	0	Agriculture, fishery
Manufacturing	2/3	Manufacturing
Construction	5	Construction and installation
Commercial services 1	6 and 8	Hotels, restaurants, wholesale and retail trade, Banks, real estate and insurance companies
Commercial services 2	7	Transport, storage and communication
Non-commercial services	9	Other (non-commercial) services, government

APPENDIX 3. ELASTICITY BETWEEN X AND U

This appendix presents the estimation results when the elasticity γ in equation (4) is estimated directly. The presence of a unit root in the log of all three variables in (4) cannot convincingly be rejected. There is however no clear-cut evidence of cointegration. When we proceed with estimating (4) in log-linear form and imposing an error-correction specification, we find after simplification:

$$\Delta \log(X_{i,t}) = 2.481 - 0.118 [\log(X_{i,t-1}) + 1.622 \log(E_{i,t-1}) - 0.113 \log(U_{i,t-1})]$$

(2.880) (-2.014) (3.580) (-1.583)

$$R^2 = 0.839 \quad \sigma = 0.0017 \quad DW = 1.629 \quad T = 23 \quad (1989.II - 1994.IV)$$

The long-term equilibrium relation between X and U is given by the error-correction part,

$$\log X = 0.11 \log U,$$

where the coefficient of $\log U$ equals the elasticity $\gamma = \epsilon_u^x$. Note that the elasticity is smaller than 1, but not negative and that the value is not significantly different from zero. This analysis therefore does not provide reliable information concerning the value of the elasticity ϵ_u^x .